

Message Text

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ACTION ARA-10

INFO OCT-01 AF-08 EUR-12 NEA-10 IO-13 ISO-00 ARAE-00
ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00
EB-07 FEAE-00 FPC-01 H-01 INR-07 INT-05 L-03 NSAE-00
NSC-05 OMB-01 PM-04 USIA-06 OES-06 SP-02 SS-15 STR-04
TRSE-00 ACDA-07 PA-01 PRS-01 /142 W
----- 084458 /44

P R 211900Z DEC 76
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 9239
INFO AMEMBASSY JIDDA
AMEMBASSY TEHRAN
AMEMBASSY LAGOS
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO
AMEMBASSY CARACAS
USMISSION OECD PARIS
AMEMBASSY BRUSSELS
USMISSION GENEVA
USMISSION USUN NEW YORK

LIMITED OFFICIAL USE SECTION 1 OF 2 BRASILIA 10420

E.O. 11652: N/A
TAGS: EFIN, ENRG, PINT, BR
SUBJECT: BRAZILIAN REACTION TO OPEC'S DECISION TO INCREASE
PETROLEUM PRICES

REF: BRASILIA 10288

1. SUMMARY: BRAZIL'S REACTION TO THE OPEC
OIL PRICE INCREASE HAS BEEN MIXED. IT IS
DOUBTFUL THAT THE GOB WILL IMPLEMENT ANY IMMEDIATE
MEASURES, SUCH AS RATIONING OF GASOLINE AND OTHER
PETROLEUM DERIVATES WHICH HAD BEEN UNIVERSALLY
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PREDICTED IF THE PRICE RISE HAD BEEN OVER
10 PERCENT, AT LEAST UNTIL THE WORKINGS OF
THE TWO PRICE SYSTEM BECOME CLEAR. FINANCE
MINISTER SIMONSEN SAYS THAT BRAZIL'S POLICY
OF DIVERSIFYING ITS SOURCES OF OIL REMAINS UN-
CHANGED SINCE HE DOES NOT BELIEVE THAT THE TWO

PRICE SYSTEM WILL WORK AND FEELS THAT BRAZIL WILL BE ABLE TO WORK OUT SPECIAL ARRANGEMENTS. SOME OF THE PRESS IS CRITICAL OF GOVERNMENT'S ALLEGED INDECISION AND LACK OF COHERENT ECONOMIC STRATEGY IN THE FACE OF BRAZIL'S INCREASING DIFFICULTIES FURTHER AGGRAVATED BY THE INCREASE IN OIL PRICES. END SUMMARY.

2. THE BRAZILIAN GOVERNMENT'S REACTION TO THE LATEST OPEC PRICE INCREASE HAS BEEN MIXED: THE PRESIDENT OF THE NATIONAL PETROLEUM COUNCIL IS QUOTED IN THE WEEKEND PRESS AS SAYING THAT HE WAS "SATISFIED" WITH THE OPEC DECISION, SINCE THE INCREASE WAS LESS THAN THE 10 PERCENT GENERALLY ANTICIPATED; ON THE OTHER HAND, THE MINISTER OF MINES AND ENERGY, WHILE EXPRESSING SATISFACTION WITH THE SAUDI DECISION, DESCRIBED THE NEWS AS "SAD AND LAMENTABLE" ALTHOUGH HE QUALIFIED HIS COMMENT BY URGING THAT THE INCREASE "NOT LEAD TO A FEELING OF DISHEARTENMENT AND DEFEAT, EVEN THOUGH IT IMPLIES GREATER SACRIFICES IN 1977." QUOTING OFFICIAL SOURCES, THE PRESS CLAIMS THAT THE LATEST INCREASE WILL COST BRAZIL AN ADDITIONAL \$300 MILLION FOR PETROLEUM IMPORTS IN 1977 (BASED ON AN ASSUMED AVERAGE COST INCREASE OF 8.0 PERCENT FOR BRAZIL). GOVERNMENT OFFICIALS ARE MEETING THIS WEEK TO ASSESS THE FULL IMPACT OF THE LATEST PRICE BOOST
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AND WHAT ADDITIONAL MEASURES, IF ANY, SHOULD BE TAKEN TO COPE WITH IT. ONE MEASURE REPORTEDLY UNDER SERIOUS CONSIDERATION IS GASOLINE RATIONING (BEGINNING IN MARCH OR LATER) WHICH HAD BEEN GENERALLY PREDICTED -- INCLUDING BY SEVERAL MINISTERS -- IF THE PRICE RISE HAD BEEN MORE THAN 10 PERCENT. JUDGING BY THE LATEST PUBLIC COMMENTS, HOWEVER, THE MINISTERS APPEAR TO BE DIVIDED ON THIS QUESTION, WITH THE OVERALL INCREASE BEING LESS THAN 10 PERCENT. THE MINISTER OF MINES AND ENERGY, WHO CONSISTENTLY HAS CLAIMED TO BE OPPOSED TO RATIONING, SEEMS STILL TO OPPOSE SUCH A MOVE, WHILE THE PLANNING AND FINANCE MINISTERS, WHICH HAVE BEEN MORE FAVORABLY DISPOSED TO RATIONING AS A WAY TO REDUCE THE IMPORT BILL, ARE LEANING TOWARD IT. AN IMMEDIATE FURTHER PRICE INCREASE HAS BEEN

APPARENTLY RULED OUT (GASOLINE PRICES WERE
INCREASED ON DECEMBER 1) ON THE BASIS THAT
PETROBRAS' PETROLEUM STOCKS PERMIT A DELAY.
THE MINISTERS ARE PREPARING A SET OF OPTIONS FOR
PRESIDENT GEISEL, WHO WILL DECIDE ON BRAZIL'S STRATEGY
BY EARLY JANUARY.

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3. FINANCE MINISTER SIMONSEN, IN A "BACK-
GROUNDER" TO THE O ESTADO DE SAO PAULO, SAID
THAT THE POLICY OF DIVERSIFYING BRAZIL'S
SOURCES OF PETROLEUM IMPORTS (SEE REFTTEL)
WILL REMAIN UNCHANGED. IN JUSTIFICATION
FOR HIS POSITION, SIMONSEN GIVES TWO REASONS
(A) A TWO-TIER PRICE SYSTEM WILL NOT LAST SO
THAT SOONER OR LATER THERE WILL BE A RETURN
TO A SINGLE PRICE FOR A BARREL OF OIL AND
(B) EVEN IF THE DIFFERENCE IN PRICE WERE TO
BE MAINTAINED, THERE WILL ALWAYS BE

"COMPENSATING FORMULAS" WHICH WILL PERMIT
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BRAZIL TO CONTINUE DIVERSIFYING ITS
OIL PURCHASES. (COMMENT: PRESUMABLY BY
"COMPENSATING FORMULAS" SIMONSEN IS REFERRING
TO DISCOUNTS). SOURCES IN THE MINISTRY OF
MINES AND ENERGY REPORTEDLY STATED THAT BRAZIL
WILL CONTINUE ITS NORMAL NEGOTIATIONS WITH
PRODUCERS SUCH AS LIBYA AND IRAQ, DESPITE THE
PRICE DIFFERENTIAL. IN THE MEDIUM TERM, THE
DIVERSIFICATION STRATEGY IS VIEWED AS THE MORE
ADVANTAGEOUS ONE BECAUSE IT WOULD ASSIST IN
EXPANDING BRAZILIAN EXPORTS. (SEE REFTTEL) BASED
ON UNOFFICIAL DATA FOR THE FIRST QUARTER OF
1976, 70 PERCENT OF BRAZIL'S OIL IMPORTS
COME FROM THE HIGHER-PRICED OPEC COUNTRIES,
WITH SAUDI ARABIA SUPPLYING 25 PERCENT
AND THE UAE 5 PERCENT. INTERESTINGLY ENOUGH,
IRAQ THIS YEAR HAS BEEN THE PRINCIPAL
SUPPLIER, WITH A 30 PERCENT PARTICIPATION.

4. THE TWO MAJOR DAILIES, O ESTADO AND JORNAL
DO BRASIL, HAVE BEEN CRITICAL OF THE
GOVERNMENT'S OIL POLICY, PARTICULARLY AS REGARDS
THE POSSIBILITY OF GASOLINE RATIONING. IN
AN EDITORIAL IN ITS SUNDAY EDITION, O ESTADO
CARRIES A STINGING ATTACK ON THE GOVERNMENT'S
ALLEGED INDECISION AND INABILITY TO FORGE A
COHERENT SET OF POLICIES IN THE FACE OF
BRAZIL'S ECONOMIC DIFFICULTIES, FURTHER
AGGRAVATED BY THE INCREASE IN THE PRICE OF OIL.
ON THE OTHER HAND, IN A COLUMN IN THE SUNDAY JORNAL,
THE HIGHLY-REGARDED POLITICAL COLUMNIST CARLOS
CASTELLO BRANCO ARGUES THAT RATIONING IS
TOO COSTLY A PROPOSITION IN ECONOMIC AND
POLITICAL TERMS FOR THE LITTLE SAVINGS
(FOREIGN EXCHANGE) THAT IT WOULD MAKE
POSSIBLE. FURTHERMORE, HE MAINTAINS, SUCH
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A MOVE WOULD INDICATE THAT THE GOVERNMENT
IS PANICKING, AND THAT IT LACKS CONFIDENCE
IN THE EFFICACY OF ITS OWN ECONOMIC
PROGRAM. BRAZIL, DESPITE ITS FINANCIAL TROUBLES,
HE SAYS, REMAINS A PRIVILEGED AREA IN

WHICH IT IS WORTH INVESTING. THE COLUMNIST CONCLUDES BY WARNING THAT THE GOVERNMENT EXERCISE DISCRETION IN ITS POLITICAL COURSE, IN ORDER TO BE ABLE TO CONCENTRATE ITS EFFORTS IN 1977 ON THE ECONOMY, RATHER THAN PANIC POLITICALLY AND ECONOMICALLY, AND ADOPT DRASTIC MEASURES WHICH WOULD UNDO THE PROGRESS ACHIEVED UNDER THE POLICY OF "DISTENSAO."

5. COMMENT: OUR OWN ASSESSMENT IS THAT BRAZILIAN OFFICIALS ARE PRIVATELY SATISFIED WITH THE OUTCOME OF THE OPEC MEETING. WHILE THEY WOULD HAVE PREFERRED THE CONTINUATION OF THE PRICE FREEZE, THE RESULT WAS BETTER THAN THEY HAD EXPECTED -- WHICH WAS A FLAT 10 PERCENT INCREASE AT THE MINIMUM. ALTHOUGH WE WOULD HAVE PREDICTED SOME TYPE OF RATIONING WITH A PRICE INCREASE OF MORE THAN 10 PERCENT WE NOW BELIEVE THAT THE GOB WILL POSTPONE ANY SUCH DECISION UNTIL THE OIL PRICE SITUATION, PARTICULARLY THE WORKINGS OF THE TWO PRICE SYSTEM, IS CLARIFIED.
CRIMMINS

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